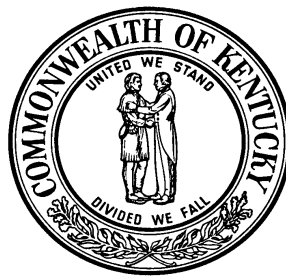


**REPORT OF THE AUDIT OF THE
MADISON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MADISON COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Madison County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Madison County Sheriff had total receipts of \$2,355,759 which was a \$490,205 increase from the prior year. Except for reimbursed expenses in the amount of \$1,088,021, the sheriff paid 25% of receipts to the Madison County Fiscal Court in the amount of \$304,319. This was an increase of \$33,769 from the prior year. In addition, 75% operating fund expenditures increased by \$215,583.

Deposits:

The Sheriff's deposits were insured or collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable Nelson O'Donnell, Madison County Sheriff
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Madison County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2009. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 13, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kent Clark, Madison County Judge/Executive
Honorable Nelson O'Donnell, Madison County Sheriff
Members of the Madison County Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Madison County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 13, 2010

MADISON COUNTY
NELSON O'DONNELL, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

Federal Grants:

Project Safe Neighborhood	\$	3,408
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State Grants:

Highway Safety Grant	\$ 34,912	
Blue Lights Across Bluegrass Grant	4,555	39,467

State Fees for Services:

Cabinet For Health And Family Services	2,541	
Convey Prisoners	10,882	
Fugitive Claims	10,894	
Convey Convicts	1,854	
Finance and Administration Cabinet	117,560	
KLEFPF	87,030	
Sheriff's Security Services	74,438	305,199

Circuit Court Clerk		9,759
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Fiscal Court

Return of 25% Fees and Program Support	278,796	
Reimbursements	13,990	292,786

County Clerk		130,206
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Commission on Taxes		1,042,753
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Central Kentucky Area Drug Task Force

Justice Assistance Grant		77,158
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Fees Collected for Services:

Auto Inspections	34,947	
Concealed Weapon License Fees	20,644	
Fingerprints	305	
Serving Papers	199,332	
Sheriff's Add-On Fee	153,798	
Sheriff's Advertising Costs	3,235	
Sheriff's Advertising Fees	8,805	
Special Detail	9,000	430,066

Other Revenues:

Copy	938	
Interest Earned	8,499	
Other Income	3,909	
Reimbursements	11,611	24,957

Total Revenues		2,355,759
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The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
 NELSON O'DONNELL, SHERIFF
 STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Other Expenditures:

Ordinance Fees	\$	35,520
Return of Fugitives		6,089
Distribution of Proceeds from Sheriff's Sale and Auction Expense		4,772
Refunds		1,077
Miscellaneous		<u>3,005</u>

Total Expenditures		<u>\$</u>	<u>50,463</u>
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Net Revenues			2,305,296
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Payments to State Treasurer:

75% Operating Fund	2,000,977	*	
25% County Fund	<u>304,319</u>		<u>2,305,296</u>

Balance Due at Completion of Audit		<u>\$</u>	<u>0</u>
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*Includes reimbursed expenses of \$1,088,021. See note 1 of Notes to Financial Statements.

MADISON COUNTY
NELSON O'DONNELL, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2009

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2008	\$ (567,236)	\$	\$ (567,236)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	2,000,977		2,000,977
Fees Paid to State - County Funds (25%)		304,319	304,319
Total Funds Available	\$ 1,433,741	\$ 304,319	\$ 1,738,060
<u>Expenditures</u>			
Payments to Madison County Fiscal Court	\$	\$ 304,319	\$ 304,319
Personnel Services-			
Official's Statutory Maximum	91,728		91,728
Official's Training Incentive	2,646		2,646
Deputies' Salaries	1,242,210		1,242,210
Employee Benefits-			
Employer's Share Social Security	93,621		93,621
Employer's Share Retirement	364,519		364,519
Employer's Paid Health Insurance	87,480		87,480
Unemployment Insurance	7,871		7,871
Contracted Services-			
Advertising	1,012		1,012
Materials and Supplies-			
Office Supplies	9,490		9,490
Other Charges-			
Central Kentucky Area Drug Task Force	80,980		80,980
Computer Expenses	3,559		3,559
Conference and Dues	3,142		3,142
Deputy Expenses	24,963		24,963
K-9 Expenses	915		915
KACO Insurance	12,487		12,487
Law Enforcement Equipment/Uniforms	682		682
Other Expenses	8,165		8,165
Postage	4,890		4,890
Radio Equipment	3,000		3,000
Sheriff's Association	2,390		2,390
Telephone	3,960		3,960
Transporting Convicts	5,618		5,618

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
 NELSON O'DONNELL, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Auto Expenses-			
Gasoline	\$ 70,755	\$	\$ 70,755
Maintenance and Repairs	3,869		3,869
Equipment	26,930		26,930
Capital Outlay-			
Law Enforcement Equipment	6,160		6,160
Vehicle Equipment	19,880		19,880
Vehicles	104,020		104,020
Total Expenditures	<u>2,286,942</u>	<u>304,319</u>	<u>2,591,261</u>
Fund Balance - December 31, 2009	<u>\$ (853,201)</u>	<u>\$ 0</u>	<u>\$ (853,201)</u>

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent for the first six months and 32.97 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Madison County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Madison County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Forfeited Federal Funds Account

The Madison County Sheriff maintained a Forfeited Federal Funds Account. These funds were used in law-enforcement activities against drugs and were not considered in determining excess fees. As of January 1, 2009, the Sheriff had a balance of \$5,637 in the Forfeited Federal Funds Account. During 2009, the Sheriff received \$21,856 in the Forfeited Funds Account. There was \$14,516 in expenditures, leaving a balance as of December 31, 2009 of \$12,977.

Note 5. Grant Funds Account

The Madison County Sheriff maintained a Grant Funds Account to account for the Operation First Responders Grant from the U.S. Department of Justice. The grant period was October 1, 2006 through September 30, 2010. As of January 1, 2009, the Sheriff had a balance of \$6 in the Grant Funds Account. During 2009, the Sheriff received \$24,067 in the Grant Funds Account. There was \$9,372 in expenditures, leaving a balance as of December 31, 2009 of \$14,701.

Note 6. Grants

- A. The Sheriff's Office was a sub-recipient of a U.S. Department of Justice Project Safe Neighborhood Grant from Lexington-Fayette Urban County Government in the amount of \$3,408. The grant period was July 1, 2007 through April 30, 2009. Funds totaling \$3,408 were expended during 2009.
- B. The Sheriff's Office received a Highway Safety Grant from the Kentucky Transportation Cabinet Office of Highway Safety in the amount of \$35,000. The grant period was October 1, 2009 through September 30, 2009. Funds totaling \$34,912 were expended during 2009.
- C. The Sheriff's Office received a 2009 Blue Lights Across Bluegrass Grant from the Kentucky Transportation Cabinet Office of Highway Safety in the amount of \$4,555. Funds totaling \$4,588 were expended during 2009.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009
(Continued)

Note 7. Central Kentucky Area Drug Task Force

The establishment of the Central Kentucky Area Drug Task Force (CKADTF) was through an interlocal agreement signed by Madison, Garrard, and Jackson Counties. The interlocal agreement was also signed by the City of Berea. The purpose of the Central Kentucky Area Drug Task Force (CKADTF) is to combat the sale, the use, and otherwise dealing of illegal drugs and other substances determined to be in violation of federal and state law. The primary funding of the CKADTF is from the Kentucky Justice Cabinet's Justice Assistance Grant Funding program which is a federal reimbursement grant. On behalf of the Madison County Fiscal Court, the Madison County Sheriff's office provides the initial funding for grant expenditures, so that reimbursement can be requested.

Note 8. 75% Operating Fund - Deficit Balance

The Madison County Sheriff's 75% operating fund had a deficit balance of \$853,201 as of December 31, 2009. KRS 64.345(4) states, "If seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his/her office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his/her term." The 75% operating fund has to be settled at the end of the Sheriff's term, which ends December 31, 2010.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive
Honorable Nelson O'Donnell, Madison County Sheriff
Members of the Madison County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements - regulatory basis of the Madison County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated April 13, 2010. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Madison County Sheriff's financial statements for the year ended December 31, 2009, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Madison County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 13, 2010

